

Banking

Position Of Strength

Highlights

- BNM's 2H25 Financial Stability report highlights continued improvements in banking system resilience and key financial metrics.
- This reinforces confidence that the sector is entering the current external headwinds from a position of strength.
- Maintain OVERWEIGHT. Amid ongoing Middle East geopolitical uncertainties, we adopt a barbell strategy, favouring Public Bank and Hong Leong Bank for their defensive profiles and capital management upside, while CIMB offers attractive value with one of the sector's highest dividend yields at around 6.5%

Analysis

- **Liquidity and capital buffers remain robust.** Banking system liquidity stayed resilient in 2H25, with liquidity coverage ratio at 154.8% and net stable funding ratio at 115.7%, well above regulatory minima, while capitalisation was solid with CET1 at 14.2% (above banks optimal guidance of 13.0-13.5%). Under Bank Negara Malaysia's internal macroeconomic stress test scenario, the banking system's CET1 ratio is still expected stay above 12% level.
- **Asset quality in good shape.** System GIL ratio held steady at 1.4% in 2H25 (Jun 25: 1.4%), while Stage 2 loans declined to 6.1% (Jun 25: 6.6%; vs 2018-19 average: 7.6%), reflecting upgrades of selected corporate exposures. Loss absorption remains robust, with loan loss coverage (including regulatory reserves) at 127.2%.
- **Business financial indicators remain resilient leading to lower overall business GIL.** Overall business operating margins edged up to 7.5% in 2H25 (Jun 25: 7.4%) with interest coverage ratio stable at 6.4x. Asset quality improved, with business loan GIL and Stage 2 ratios dropping to 2.8% and 10.7% respectively (Jun 25: 3.1%/11.9%). SME stress remains contained, with impaired loans broadly stable at 3.5% (Jun 25: 3.5%). Only a small segment of SME — particularly micro and small firms in wholesale & retail, agriculture, construction, and F&B —continues to face some repayment pressures.
- **Household balance sheets remain resilient.** Debt-to-GDP stabilised at 84.8% (Dec 24: 84.1%), with leverage improving as median debt-to-income easing to 1.3x (Jun 25: 1.4x). Repayment capacity remains sound, with the debt service ratio steady at 33%. Riskier lending remains contained, with approvals to higher-risk borrowers declining to 7.9%. Asset quality is stable, with impairment at around 1.0%, near historical lows, while financial buffers remain strong with assets at 181% of GDP.

Peer Comparison

Company	Ticker	Rec	Price 31 Mar 26 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	2025A (x)	PE 2026E (x)	2027E (x)	Yield 2026E (%)	ROE 2026E (%)	Market Cap. (US\$m)	Price/ NAV ps (x)
Public Bank	PBK MK	BUY	4.68	5.55	18.6	Dec-25	12.6	11.7	11.0	5.6	12.6	22,430	1.5
CIMB Group	CIMB MK	BUY	7.55	9.30	23.2	Dec-25	10.3	9.8	9.1	6.7	11.6	20,142	1.1
HL Bank	HLBK MK	BUY	21.90	25.15	14.8	Jun-25	10.7	9.6	8.8	5.2	11.4	11,722	1.1
RHB Bank	RHBBANK MK	BUY	8.44	9.10	7.8	Dec-25	11.0	10.4	10.0	5.8	10.1	9,090	1.0
AMMB	AMM MK	HOLD	6.59	6.55	(0.6)	Mar-25	10.9	10.8	10.1	5.1	9.4	5,381	1.0
HLFG	HLFG MK	BUY	18.96	22.67	19.6	Jun-25	7.2	7.0	6.7	3.8	9.7	5,361	0.7
Maybank	MAY MK	HOLD	11.36	12.30	8.3	Dec-25	12.1	11.7	11.3	6.1	11.2	33,887	1.3
Alliance Bank	ABMB MK	HOLD	4.82	5.10	5.8	Mar-25	11.1	10.4	9.8	4.8	9.9	2,059	1.0
Affin Bank	ABANK MK	HOLD	2.47	2.60	5.3	Dec-25	11.1	10.2	9.2	3.9	4.8	1,545	0.5
Bank Islam	BIMB MK	HOLD	2.40	2.45	2.1	Dec-25	8.7	8.8	9.6	5.7	7.1	1,343	0.6

Source: UOB Kay Hian

OVERWEIGHT (Maintained)

Analyst(s)

Keith Wee Teck Keong

keithwee@uobkayhian.com

+603 2147 1981

Segmental Rating

Segment	Rating
Bank	OVERWEIGHT (Maintained)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Public Bank	PBK MK	BUY	4.68	5.55
CIMB Bank	CIMB MK	BUY	7.55	9.30
Hong Leong Bank	HLBK MK	BUY	21.90	25.15
RHB BANK	RHB MK	BUY	8.44	9.10

Source: Bloomberg, UOB Kay Hian

Banks' Share Price Performance

Company	Price (RM)	yoy % chg	ytd % chg
RHB Bank	8.44	23.4	9.5
Maybank	11.36	12.3	8.4
Affin Bank	2.47	(7.2)	5.1
Bank Islam	2.40	(6.2)	4.8
Public Bank	4.68	5.9	3.1
AMMB	6.59	17.7	1.4
HLFG	18.96	9.0	(0.5)
HL Bank	21.90	8.7	(1.1)
Alliance Bank	4.82	7.1	(4.6)
CIMB Group	7.55	8.8	(8.5)

Source: Bloomberg, UOB Kay Hian

Summary Of Banking Data

	Dec-25	Jan-26	Feb-26
Loan Outstanding	4.8	4.6	4.9
- Business	4.1	3.6	4.4
- Household	5.3	5.3	5.3
Loan Applied	6.7	6.0	(9.3)
- Business	8.7	(4.7)	0.4
- Household	5.4	15.7	(16.4)
Loan Approved	9.3	27.4	0.4
- Business	10.8	44.2	10.8
- Household	7.4	13.5	(10.5)
Loan Disbursed	(10.9)	(3.7)	2.1
- Business	(14.1)	(4.9)	(8.6)
- Household	2.4	0.1	0.9
Loan Repaid	(11.0)	(3.9)	(10.1)
- Business	(14.3)	(5.3)	(12.8)
- Household	2.5	1.2	(0.7)
Impaired Loans	(0.5)	0.2	2.5
- Business	(1.2)	(0.5)	2.2
- Household	0.4	1.0	2.9

Source: BNM

- **BNM Feb 26 statistics.** Loan growth gained traction rising to 4.9% (Jan 26: 4.6%), driven by stronger business loans while household loans remained steady at 5.3%, supported by mortgages (+6.0% yoy). We maintain our 2026 loan growth forecast at 5.0-5.5%, underpinned by stable household loans growth. Deposit growth moderated to 2.6% yoy from 2.8%, though CASA growth remained resilient at 8.0%, with the loan-to-deposit ratio stable at 89%. Asset quality is stable, with GIL at around 1.42% near historical lows, while strong loan loss coverage of about 90% (vs pre-pandemic ~80%) should keep credit costs contained at around 17bp.

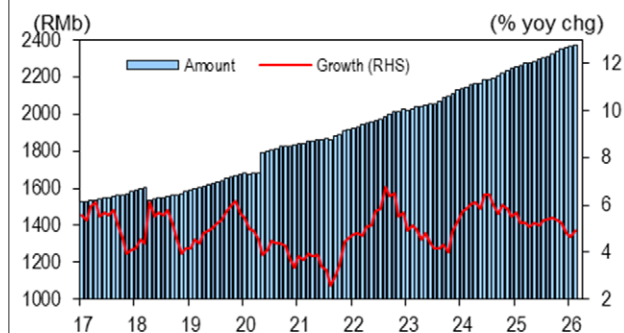
Valuation/Recommendation

- **Maintain OVERWEIGHT.** We remain constructive on the sector, underpinned by: a) potential dividend upside, supporting attractive yields of around 5.5%; b) a relatively defensive earnings profile compared with export sectors exposed to tariff risks; c) potential inflows from emerging market MSCI rebalancing; and d) strong provision buffers across the sector. The sector's 1.0x PBV remains undemanding relative to its ROE of about 10%. By comparison, Singapore banks trade at a significantly higher PBV of about 1.65x, despite delivering only modestly stronger ROE of approximately 13%.
- **Stock picks.** Amid ongoing geopolitical uncertainties in the Middle East, we adopt a barbell investment approach. We favour Public Bank and Hong Leong Bank for their defensive earnings profiles and near-term capital management upside ahead of the adoption of Basel III reforms in Jun 26. At the other end, we like CIMB as a high-beta and liquid laggard that is likely to recover the quickest once geopolitical tensions ease.

Sector Catalyst/Risk

- **Catalysts:** Stronger-than-expected dividend payouts, stronger-than-expected NIM recovery.
- **Risks:** Higher-than-expected asset quality deterioration from sustained spike in oil prices on businesses.

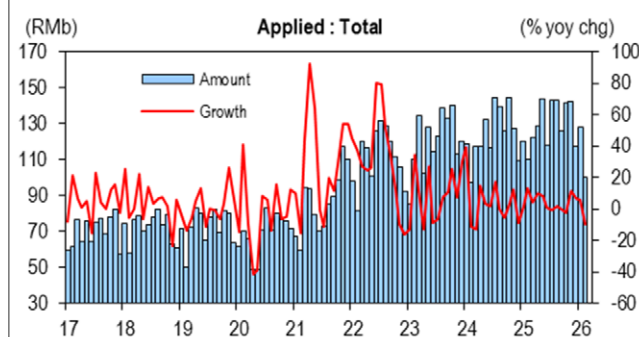
Total Outstanding Loans



Source: BNM

- Loan growth gained traction, rising to 4.9% (Jan: 4.6%), driven by stronger business loans while.
- Household loans remained steady at 5.3%, supported by mortgages (+6.0% yoy).

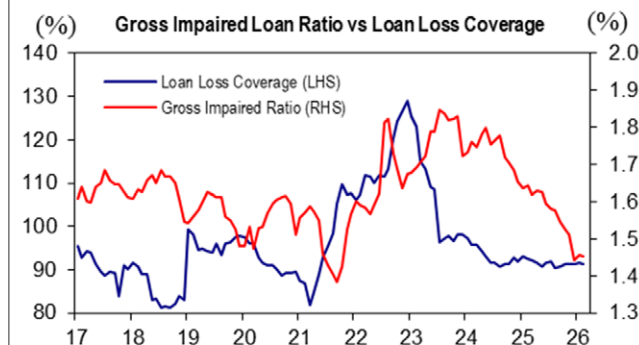
Total Loan Applications



Source: BNM

- Loan application contracted 9.3% yoy in Feb 26 vs a 6% growth in Jan 26 due to a shortened CNY month in Feb 26 (vs Jan 25)
- Similarly, Feb 26 loans approval growth tapered off.

Net Impaired Loan Ratio Vs Loan-Loss Coverage



Source: BNM

- The GIL ratio edged up to 1.42% in Feb 26 (Jan 26: 1.40%), driven by a slight increase in the business GIL ratio.

IMPORTANT NOTICE - DISCLOSURES AND DISCLAIMERS

This report is provided subject to various disclosures and disclaimers (the "Disclosures / Disclaimers") which form an integral part of this report and are available at the following link:
<https://research-api.uobkayhian.com/assets/disclaimer/df64a6ea-7980-447c-ae9e-fd19b93257dc> or by scanning the QR code below:



The Disclosures / Disclaimers contain important information, including without limitation, (a) exclusions of liability, (b) confidentiality obligations, (c) restrictions on publication, circulation, reproduction, distribution and use of the report, (d) potential conflicts of interest, and (e) disclosures and requirements specific to recipients in the United States and other applicable jurisdictions.

Specifically, this report is intended for general circulation and informational purposes only and does not take into account the specific investment objectives, financial situation, or particular needs of any individual person. It is not intended to constitute personal investment advice or a recommendation to buy or sell any investment product or security. You should independently evaluate the information and, where necessary, seek advice from a qualified financial adviser regarding the suitability of any investment, taking into account your specific objectives, financial situation and needs, before making any investment decision. Analyst certifications required under applicable regulations, including SEC Regulation AC (where relevant), are included in this report.

Recipients of this report must carefully read, review and understand the full Disclosures / Disclaimers before using or relying on any information in this report. By accessing, receiving or using this report, you acknowledge and confirm that you have read, understood, accepted and agreed to be bound by the Disclosures / Disclaimers (as may be amended or updated from time to time) in full."